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FISCAL IMPACT REPORT

SPONSOR Taylor **ORIGINAL DATE** 2-20-07
LAST UPDATED 3-01-07 **HB** _____
SHORT TITLE Congressional Employee Service Credits **SB** 830/aSPAC
ANALYST Aubel

REVENUE (dollars in thousands)

| Appropriation | | Recurring or Non-Rec | Fund Affected |
|---------------|---------------|-------------------------|------------------|
| FY07 | FY08 | | |
| | See narrative | | PERA |
| | See narrative | | ERA |

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY07 | FY08 | FY09 | 3 Year Total Cost | Recurring or Non-Rec | Fund Affected |
|--|------|--------|------|----------------------|-------------------------|------------------|
| | | \$4.0 | | | Non-Rec | See narrative |
| | | \$50.0 | | \$50.0 | Non-Rec | ERA |
| | | \$4.0 | | | Non-Rec | See narrative |
| | | \$50.0 | | \$50.0 | Non-Rec | ERA |

(Parenthesis () Indicate Expenditure Decreases)

Relates to SB 181, HB 1209, HB 1187, HB 222 and HB 224

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employees Retirement Association (PERA)

Educational Retirement Board (ERB)

SUMMARY

Synopsis of SPAC Amendment

The Senate Public Affairs Committee Amendment adds the Educational Retirement Board as a retirement plan under which those former Congressional members vested in the plan may purchase up to five years of service credit at the actuarial value as defined by ERB.

Synopsis of Original Bill

Senate Bill 830 amends the Public Employees Retirement Act to allow a PERA member who was employed by an elected member of the United States House of Representatives or United States senate to purchase PERA service credit for the period of employment with the United States Congress. The aggregate amount of credited service purchased for congressional service must not exceed five years. The purchasing member would be required to pay the association the incremental amount of the actuarial present value of the pension of the member as a consequence of the purchase, as determined by PERA. The purchasing member must have five or more years of service credit with a PERA-affiliated employer and not be qualified for vesting in a federal government pension.

FISCAL IMPLICATIONS

ERB will incur similar fiscal impacts as detailed by PERA below:

PERA maintains that HB 830 presents a significant change to the benefits offered by the PERA Act. This change will have fiscal implications that cannot be determined at this time. Though HB 830 requires payment of the actuarial present value for the time purchased, PERA's actuaries have not had the opportunity to evaluate this proposal. Additionally, PERA's actuaries will charge PERA a fee for each actuarial present value requested to be calculated in connection with purchases under HB 830, which have run approximately \$4.0 thousand for prior reports. These actuarial reports have been paid by the affected employee group; however, it is not known at this time how many employees will request to purchase this time.

PERA's operating budget will be negatively impacted by SB 830. Changes to how service credit is posted to a member's account will require significant changes to PERA's recently implemented computerized pension administration system, with associated costs, under PERA's existing post-warranty contract with the system vendor. For example, by incorporating removal of the PERA's post-retirement earning limit into the pension system, PERA incurred approximately \$50 thousand in change orders during FY05. If further revisions to the system are necessary in FY08, PERA will be required to seek a BAR to cover the costs of these system changes.

SIGNIFICANT ISSUES

Current un-earned service credit purchase (or "airtime") is currently limited to one year for PERA-affiliated employees. Because SB 830 would permit the purchase of five years of service credit not associated with service to a PERA-affiliated employer, it would operate to create a 20-year plan, allowing those eligible to purchase service credit for congressional employment and with sufficient resources to make the purchase to retire with 20 years of actual service to PERA-

affiliated employers.

To date, all employee groups that are eligible for the enhanced benefits of a 20-year retirement plan or that have each year of service credit enhanced by 20 percent (state police, adult correctional officers, municipal police/fire, and municipal detention officers) have a commonality of danger to life as an integral part of the job. PERA cautioned that expanding enhanced benefits to employee groups beyond these “hazardous duty” employee groups may set precedent for all employer groups to seek enhanced benefits from the retirement system. PERA has expressed concern of the cumulative effect of enhanced plans on the solvency of the fund. Increasing liabilities increases the risk to the fund if actuarial assumptions do not hold, such as the 8 percent investment return.

In 1998, the state Constitution was amended to require funding in connection with expansion of the retirement plan benefits. Article XX, Section 22 of the Constitution of the State of New Mexico was enacted, which now requires that an increase in benefits under the retirement system be adequately funded to preserve the retirement fund’s actuarial soundness. Thus, any future expansion of the category of persons eligible to purchase this expanded “air-time” must provide a purchase cost that reflects the full actuarial present value of the amount of the increase in the member’s pension as a consequence of the congressional service credit. SB 830 requires the member pay full actuarial present value of the amount of the increase in the employee's pension as a consequence of the purchase and so the plan enhancement would be properly funded once the actuarial present value was determined.

ADMINISTRATIVE IMPLICATIONS

The administrative impact of the amended bill on PERA and ERB will be in calculating the actuarial present value and processing the purchased service credit.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to HB 1209 and HB 1187, both which propose co-op service credit purchase expansions.

Relates to HB 222, which authorizes judicial retirement members to purchase up to one year of additional service credit at the full actuarial present value of the increase in the member’s pension as a consequence of the purchase.

Relates to HB 224, which authorizes magistrate retirement members to purchase up to one year of additional service credit at the full actuarial present value of the increase in the member’s pension as a consequence of the purchase.

Relates to SB 181, which authorizes seasonal employees of the legislative branch to purchase service credit under existing law, subject to certain conditions.

OTHER SUBSTANTIVE ISSUES

ERB members can currently buy up to five years of service credit for prior experience in private education in New Mexico, military dependent’s school, or public or higher educational service in New Mexico or another state.

Almost all PERA members have worked for employers outside the PERA system. Much of this service is for public employers such as federal employers other than congress, state and local government employers from other states, and non-governmental organizations providing public services. Airtime, already permitted under the PERA Act, allows all PERA members with at least 5 years of service credit, including those with previous employment as a congressional employee, to buy a year of PERA service credit. By contrast, SB 830 is designed to benefit only a very limited category of PERA members and treats other PERA members in very similar situations differently. PERA notes this inequality is likely to lead to a succession of further requests by other special interests for a similar benefit enhancement and possibly to legal challenges.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Vested PERA-affiliated employees with past congressional service credit will be able to buy one year of “airtime.” ERB members with prior congressional service credit will be able to purchase up to five years of prior private or public educational service credits.

MA/nt